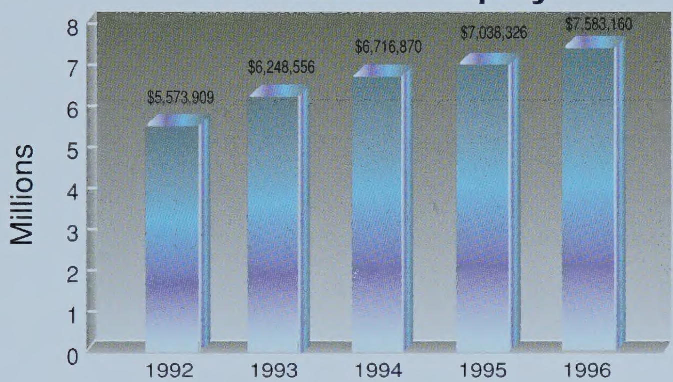
1996 Annual Report

URBCO INC.

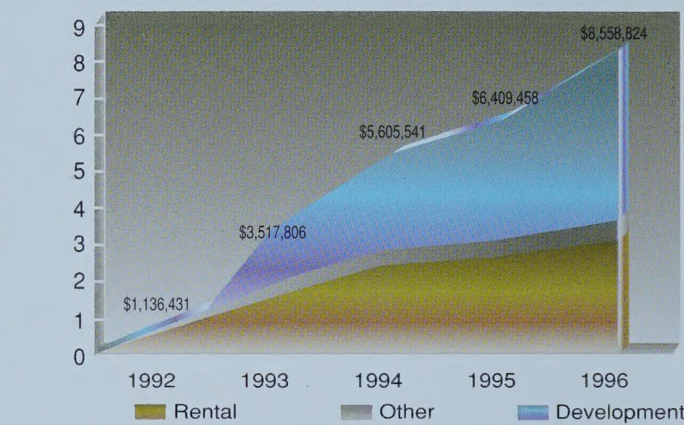
Urbco Inc. Financial Highlights

For the Year Ending July 31	1996	1995	Annual % Change
Total revenues	$ 8,558,824	$ 6,409,458	33.5%
Pre-tax income	$ 1,360,096	$ 1,025,027	32.7%
Net earnings	$ 747,302	$ 500,687	49.3%
Cash and cash equivalents	$ 1,204,173	$ 973,523	23.7%
Shareholders' equity	$ 7,583,160	$ 7,038,326	7.7%
Total assets	$ 25,082,104	$ 25,492,781	– 0.2%
Per common share			
Total Revenues	$ 1.63	$ 1.20	
Pre-tax income	$ 0.26	$ 0.19	
Net earnings	$ 0.14	$ 0.09	
Cash and cash equivalents	$ 0.23	$ 0.18	

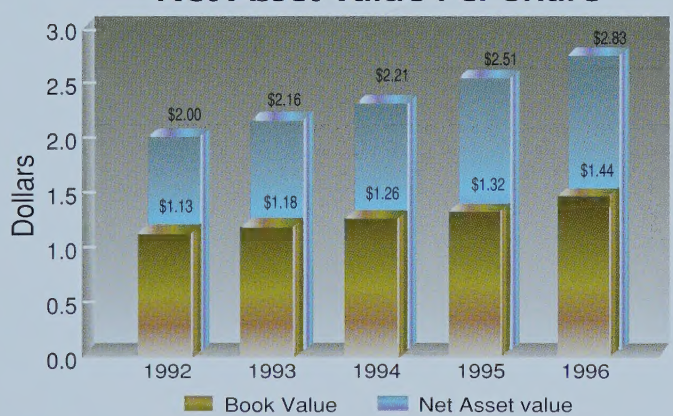
Shareholders' Equity



Revenue Growth



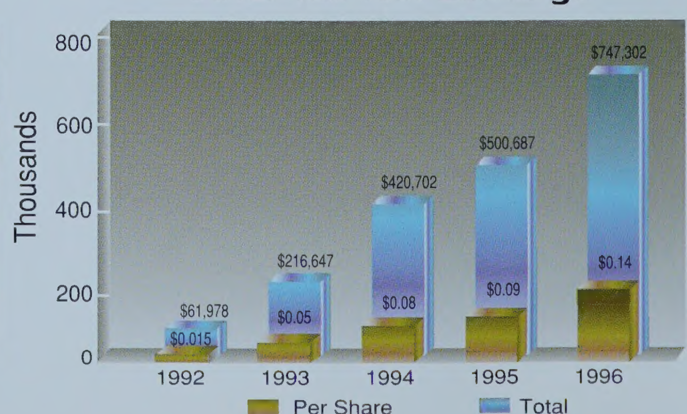
Book Value Per Share
Net Asset value Per Share



Pre-Tax Income

Net Asset Value Per Share
High-Low Trading Value Per Share

After-Tax Net Earnings



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Annual General Meeting

The Annual General Meeting will be held in the

Lake Bonavista Room, Westin Hotel
320 - 4th Avenue S.W.
Calgary, Alberta

Thursday, December 5, 1996
3:00 p.m. (Calgary time)

The front cover is the view from Lot 30 at Pinnacle Ridge

Report to Shareholders

Urbco Inc. recorded its sixth consecutive year of increased revenue, profits and shareholders' equity. Revenue at July 31, 1996 increased to $8,558,824 from $6,409,458 in 1995. This represents an increase of 34%. Pre-tax income grew to $1,360,096 from $1,025,027. Net after tax income increased 49% over last years results. Net after tax earnings at July 31, 1996 were $747,302 versus $500,687 at July 31, 1995. Earnings per share jumped to $0.14 from $0.09 in 1995.

Our Company displayed impressive growth in 1996 in spite of operating in a real estate environment that was, for most part, characterized by a lower number of housing starts in 1995, job uncertainty and declines in the real disposable income. Our continued success is attributed to management's ability to identify opportunities profitably.

Our ***Diamond Park*** condominium project in Yellowknife contributed $4.8 million in revenue and $0.9 million after all development costs. This 47 unit townhouse project, which was targeted to the first time home buyer, was sold out and occupied within a six month period. During the past fiscal year, the Company acquired another parcel of land in Yellowknife and began construction on a 28 unit townhouse condominium project. As of October 10th, 1996 we have sold all 28 units in our ***Diamond Ridge*** project.

> *Management successfully identifies markets*
>
> ••••••••
>
> *Earnings per share jumps to $0.14 from $0.09*

We began construction on our newest land development project, ***Pinnacle Ridge,*** the second week of August 1996. ***Pinnacle Ridge*** is a 51 lot country residential estate subdivision located in the very desirable Springbank area west of Calgary. Market acceptance has been excellent and as of October 10th, 1996 we have sold 24 lots. Lot prices at ***Pinnacle Ridge*** range from $98,000 to $245,000.

These three projects are testament to the Company's ability to find and profitably develop projects in a competitive environment.

Our diversified portfolio of rental properties located in Yellowknife, Red Deer, Calgary, and Okotoks continue to generate excellent profits. Our properties are comprised of

townhouses, apartments, office buildings and retail properties. These properties generated approximately $2.7 million in revenue and $1.8 million net operating income. All properties averaged better than 97% occupancies during the past fiscal year.

Our ***Sheep River Ridge*** and ***Canyon Creek Estates*** land development projects did not sell as well as the previous year. For the first part of our 1996 fiscal year absorption of lots was impacted by a surplus of recently completed new homes and serviced lots. However, we have experienced a turnaround in lot sales during the past three or four months. Currently, the Company has 70 serviced lots in inventory at these two projects and only $161,715 in debt lodged against these projects. Current sales indicate improved performance for the ***Sheep River Ridge*** and ***Canyon Creek Estates*** projects in fiscal 1997.

> *Urbco Inc. projects another year of record growth for 1997*

Looking forward to 1997 we expect another record year for Urbco Inc. The success of our two newest projects, ***Diamond Ridge*** and ***Pinnacle Ridge,*** will positively impact future reporting periods. Our inventory of serviced lots in ***Sheep River Ridge*** and ***Canyon Creek Estates*** will place the Company in a favourable market position for 1997. Management continues to aggressively pursue new opportunities.

In the past year the Company increased earnings, book value, net asset value and once again paid a $0.03 per share dividend to shareholders. These achievements have not been recognized in our share trading price. However, the fundamentals of the Company have never been better, and we believe it is an appropriate time to begin making the investment community aware of our success. We thank our shareholders for their continued support.

On behalf of the Board of Directors

C. Donald Wilson
President and C.E.O.

October 18, 1996

Our 1996-1997 Development Projects

Project:	Diamond Park
Location:	Yellowknife, NWT
Commenced:	April, 1995
Description:	47-unit townhome condominium project, 3-bedroom two-storey units, average size 1,440 square feet, average price $127,000.
Special Features:	Optional den, natural park reserve in center of project, landscaping package including trees and sod
Status:	100% sold and occupied within six months, occupancies completed September, 1995

Project:	**Diamond Ridge**
Location:	Yellowknife, NWT
Commenced:	May, 1996
Description	28-unit townhome condominium project, 3-bedroom two or three-storey units, average size 1,538 square feet, average price $144,000.
Special Features:	18 of the units have attached garages. Units with garages include an enlarged living room.
Status:	100% sold within three months; occupancies to be completed by October, 1996

Project:	**Sheep River Ridge**	
Location:	Okotoks, Alberta	
Commenced:	Spring, 1991	
Description:	Comprehensive land development project consisting of 91±acres.	
Status:	Lots sold	149
	Lots for sale (inventory)	62
	Undeveloped acreage	50 ± acres

Project:	**Canyon Creek Estates**	
Location:	Calgary, Alberta	
Commenced:	Fall, 1992	
Description:	An estate "in-fill" development. The 6.5 acre site is fully developed .	
Status:	Lots sold	19
	Lots for sale (inventory)	8

Project:	**Pinnacle Ridge**	
Commenced:	July, 1996	
Location:	Calgary, Alberta	
Description:	Joint venture land development project consisting of 130 acres of land in the Springbank area of Calgary. The project consists of 51 two-acre estate lots which are situated on the highest point in Springbank. Purchasers will enjoy a panoramic view of the Rocky Mountains. Urbco has a 66.7% interest in the project.	
Status:	Lots sold to date	25
	Lots for sale (inventory)	26

Management Report and Analysis

Overview

The Company has once again had a very successful year, due largely to our diversity of markets and types of developments. While the housing markets in both Calgary and Okotoks were in a minor slump during the early part of our fiscal year, our ***Diamond Park*** condominium project in Yellowknife was well received. ***Diamond Park*** sold out in less than six months, leading the Company to start a second condominium development, known as ***Diamond Ridge,*** in April 1996.

Revenues increased in 1996 to \$8,558,824 from \$6,409,458 in 1995. This represents a 34% increase from 1995. Net earnings for 1996 are \$747,302 versus \$500,687 in 1995, an increase of 49%. Earnings per share grew to \$0.14 in 1996 from \$0.09 in 1995.

34% increase in revenues

49% increase in net earnings

Review of Real Estate Operations

Urbco has expanded its operations in four main areas of the real estate market:

1. Ownership and management of residential and commercial rental properties;
2. Residential land development;
3. Residential property development such as townhome condominiums; and
4. Special development projects such as "design-build" commercial properties.

Residential and Commercial Portfolio

Our commercial and rental portfolio continues to perform very well in the Calgary and Yellowknife markets. Occupancies in both the commercial and residential properties continue to remain stable, in excess of 97% throughout 1996, despite slightly higher vacancy rates in Yellowknife this year. During 1995 the Company added a 25-unit apartment building **(Sunridge Apartments)** to our pool of rental units, bringing our total in Yellowknife to 110 units. In 1996, we converted four of the apartment units to fully furnished "execusuites" (at an average monthly rent of \$2,400) which have been fully occupied since their completion. The Company's residential portfolio contributed \$1,540,466 in revenue during 1996 and \$433,656 in operating income (before depreciation and income tax). Long-term debt against residential properties consists of a \$2,730,320 mortgage on the 45-unit apartment building and a \$885,348 mortgage on the 25-unit apartment.

The Company currently owns three commercial properties — a 33,000 sq.ft. suburban office building in Calgary, a 58,000 sq.ft. store in Yellowknife, and a 12,000 sq.ft. office/retail building near Okotoks. The Calgary office building was 96% occupied at the end of the fiscal year and has since been fully leased. The building in Yellowknife is leased to Wal-Mart for another 15 years, and United Grain Growers has a 19 year lease for the office/retail building near Okotoks. Our commercial properties generated revenue of \$1,140,293 and operating income of \$271,401. Total long-term debt on our commercial properties is \$5,987,166. The mortgage on the Wal-Mart building will be fully amortized in 15 years and the U.G.G. building was refinanced in

1996 for a 10-year term at an interest rate of 9.75%. The office building in Calgary is currently on a floating interest rate of prime plus 3/4%.

Residential Land Development

Our residential land development division continues to perform well, with the Company currently involved in three distinct markets:

1. **Sheep River Ridge**
2. **Canyon Creek Estates**
3. **Pinnacle Ridge**

Sheep River Ridge, situated in Okotoks, continues to be largely targeted at the first-time home buyer and first time move-up market. However, our newest phase consists of 42 lots and has been purchased by Avalon Homes who is marketing a "seniors" project. The project consists of bungalow style duplex units of approximately 1200 square feet in size. Servicing has started on these lots.

Pinnacle Ridge almost 50% sold in less than three months

As with the Calgary market, the Okotoks market experienced a slowdown in new home sales in the spring of 1995 through early winter 1996. The Company sold a total of 22 lots at ***Sheep River Ridge*** in 1996. This generated $805,386 in revenue and $162,353 in operating income. The Company continues to believe that Okotoks offers Calgary's best "satellite community lifestyle" and that the revenue will improve as the housing market continues to strengthen. The Company currently owes only $161,715 on project loans for development of ***Sheep River Ridge*** (Phase 3). Based upon our past success at ***Sheep River Ridge,*** the Company acquired another 21 acres adjacent to our current land holdings. This land is unencumbered.

Canyon Creek Estates is a 27-lot estate development located in the prestigious Canyon Meadows subdivision in Calgary. During 1996 the Company sold 5 lots in this project at an average price of $97,000 per lot.. We expect to sell the final 8 lots in fiscal 1997. Our ***Canyon Creek Estates*** project contributed $342,380 in revenue and $75,041 in operating income. There is no debt outstanding against this project.

In the spring of 1995, Urbco Inc. optioned a 130-acre parcel of prime view land in the Springbank area of Calgary. In June, 1996 the Company received subdivision approval for development of this land known as ***Pinnacle Ridge,*** a subdivision consisting of 51 two-acre lots. Upon obtaining subdivision approvals, the Company sold the land to a joint venture, with Urbco Inc. retaining 67% and two major Calgary firms, Shane Homes Ltd. and Century Coals Limited, holding 16% each. Servicing of the land began in July, 1996 and is expected to be completed by late November, 1996. The pace of lot sales has been extraordinary. Within a month of receiving municipal approval to develop ***Pinnacle Ridge,*** 13 lots had been sold. An additional 12 lots have been sold since the end of our fiscal year. At year end, there was no debt against this project although the ***Pinnacle Ridge*** joint venture has arranged a $4.0 million loan facility to pay for servicing costs. Lot prices range from $98,000 to

$245,000 and we believe this project will become Springbank's premier country residential community.

Residential Property Development

During 1995 and 1996 the Company developed two very successful condominium projects in Yellowknife. The first, ***Diamond Park,*** was started in the spring of 1995 and consisted of 47 townhomes. The units were targeted to first-time home buyers and sold for an average price of $127,000. Twelve sales were recorded in 1995 and the remaining 35 sales were recorded in the first quarter of 1996. Revenue from sales for 1996 totaled $4,518,410 and net income was $994,847.

Our second condominium development consists of 28 owner-occupied townhome units known as ***Diamond Ridge.*** The 1,538 square foot units were designed to appeal to the first-time buyers and move-up markets and the units are priced slightly higher than ***Diamond Park,*** with an average price of $144,000 per unit. All 28 units were sold within 3 months. Occupancies at ***Diamond Ridge*** started in August, 1996 and will be completed by October 31, 1996. No sales were recorded prior to our July 31, 1996 year end but will be included in the 1997 results.

The Company's various property and land development projects provided earnings before interest, taxes, depreciation, and amortization (EBITDA) of $2,609,645 for 1996 as compared to $2,159,610 for 1995, an increase of 20.8%.

Diamond Ridge matches Diamond Park

• • • • • • • •

Built, sold and occupied in less than six months

Capital Structure and Liquidity

The continued strong performance of the Company and our policy of purchasing real estate assets with treasury shares has allowed us once again to maintain a low long-term debt to equity ratio (1.30:1 in 1996 and 1:43:1 in 1995). At year end our capital structure was:

	1996	1995
Short-term debt	10.0%	14.1%
Long-term mortgages	48.9%	48.6%
Deferred taxes	3.6%	3.2%
Shareholders equity	37.5%	34.1%

Operating income before interest from all revenue properties was $1,803,579 while annual debt service from all rental properties was $1,219,235 in 1996. This equates to an interest coverage of 1.5 times.

Short-term debt is comprised of (a) $161,715 owing on our land development projects; (b) $774,283 owing on ***Diamond Ridge;*** and (c) an operating line of $1,081,651. All three loan facilities are expected to be repaid in full within the first six months of 1997.

Cash and term deposits were up 23.7% over last year ($1,204,173 in 1996 versus $973,523 in 1995).

The purchase of the new ***Sheep River Ridge*** lands (21 acres) included the issuance of 43,526 common shares, at an issue price of $1.45 per share, as partial payment for the land.

General and Administrative Costs

General and administration costs (corporate overhead) increased slightly to 7% of total revenue (6.7% in 1995), increasing by $172,277 as compared to an increase in revenue of $2,149,366. With respect to general and administrative costs for land development, the Company continues to take a conservative stance relative to the industry by expensing all interest costs and general and administrative costs associated with land development. Land development general and administrative costs were down $16,850 largely due to reduced interest costs associated with ***Sheep River Ridge*** Phase 3 and ***Canyon Creek Estates*** Phase 2.

Net Asset Value

Net asset value is determined by adjusting the shareholders' equity (historical cost) to reflect the unrealized gain from appreciation in the current market value of our assets. At July 31, 1995 we determined our pre-tax net asset value per share to be $2.51 based upon 5,315,336 shares outstanding. At July 31, 1996, based upon the current number of shares outstanding of 5,258,562, our pre-tax net value is estimated to be $2.83 per share. The value was calculated as follows:

	Total	Per Share
Shareholders' equity	$ 7,583,160	$1.44
Unrealized gain on properties	$ 7,270,670	$1.39
Net asset value	$14,853,830	$2.83

Net Asset Value of $2.83 per share

Normal Course Issuer Bid

In October, 1994, the Company implemented a normal course issuer bid and in October, 1995 received authorization for a second normal course issuer bid. To date, 122,600 shares have been repurchased for cancellation (68,900 in 1996 and 53,700 in 1995) at an average cost of $1.11 in 1996 and $0.95 in 1995. The Company believes that any shares acquired below book value, and subsequently cancelled, benefit all remaining shareholders.

Outlook for 1997

Management believes that 1997 will be another significant year of growth for the Company. Sales at ***Pinnacle Ridge*** have far exceeded expectations, ***Diamond Ridge*** is 100% sold out, and exciting new projects are in the preliminary stages. We expect the Yellowknife market to remain strong over the next year due to the development of the diamond mines. The improvement in the Calgary market should also continue to provide benefits to the Company.

We are looking forward to the challenges of the real estate development market in the upcoming year and will continue to look for interesting projects and opportunities for the Company.

AUDITORS' REPORT

To the Shareholders
Urbco Inc.

We have audited the consolidated balance sheets of Urbco Inc. as at July 31, 1996 and 1995 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 31, 1996 and 1995 and the results of its operations and cash flow for the years then ended in accordance with generally accepted accounting principles.

Collins Barrow

CHARTERED ACCOUNTANTS

Calgary, Alberta
September 4, 1996

URBCO INC.

(Incorporated under the laws of Alberta)

CONSOLIDATED BALANCE SHEETS

JULY 31, 1996 AND 1995

	1996	1995 (restated - note 11)
Assets		
Cash and term deposits	$ 1,204,173	$ 973,523
Accounts receivable	1,354,128	3,095,444
Prepaid expenses	107,410	108,630
Land held for development and sale (note 2)	8,338,028	7,183,120
Investments (note 3)	95,111	100,424
Properties (note 4)	13,983,254	14,031,640
	$ 25,082,104	$ 25,492,781
Liabilities		
Accounts payable and accrued liabilities	$ 793,062	$ 695,512
Bank loans (note 5)	2,017,650	2,903,097
Income taxes payable	169,377	41,094
Land development service costs	3,630,227	4,073,003
Mortgages (note 6)	9,894,660	10,077,838
Deferred gain	261,276	-
Deferred income taxes	732,692	663,911
	17,498,944	18,454,455
Shareholders' Equity		
Share capital (note 7)	5,876,872	5,927,593
Contributed surplus (note 7[c])	24,356	19,512
Retained earnings	1,681,932	1,091,221
	7,583,160	7,038,326
	$ 25,082,104	$ 25,492,781

Approved by the Board,

_______________, Director

Roy G. Wilson, Director

URBCO INC.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
YEARS ENDED JULY 31, 1996 AND 1995

		1996	1995 (restated - note 11)
Revenue			
Rental properties		$ 2,680,759	$ 2,472,001
Lot sales		1,097,700	2,176,200
Condominium sales		4,384,762	1,458,290
Gain on disposal of rental properties		-	160,123
Gain on disposal of land held for development		122,943	-
Interest and other		272,660	142,844
		8,558,824	6,409,458
Expenses			
Rental properties operating		896,597	785,347
Cost of lot sales		627,000	1,435,133
Cost of condominium sales		3,489,376	1,237,427
General and administrative	- land development	294,619	311,469
	- corporate overhead	602,139	429,862
Interest on mortgages		1,079,105	986,509
Professional fees		39,448	50,610
Depreciation		170,444	148,074
		7,198,728	5,384,431
Income before income taxes		1,360,096	1,025,027
Income taxes (note 8)		612,794	524,340
Net income		747,302	500,687
Retained earnings, beginning of year		1,091,221	750,251
		1,838,523	1,250,938
Dividends		156,591	159,717
Retained earnings, end of year		$ 1,681,932	$ 1,091,221
Earnings per share (note 9)		$ 0.14	$ 0.09

URBCO INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
YEARS ENDED JULY 31, 1996 AND 1995

	1996	1995 (restated - note 11)
Operating activities		
Net income	$ 747,302	$ 500,687
Add (deduct) items not affecting cash		
Gain on disposal of rental properties	-	(160,123)
Depreciation	170,444	148,074
Deferred income taxes	68,781	124,194
	986,527	612,832
Decrease (increase) in accounts receivable	1,741,316	(1,593,762)
Decrease (increase) in prepaid expenses	1,220	(23,420)
Increase in land held for development and sale	(1,154,908)	(4,022,274)
Increase in accounts payable and accrued liabilities	97,550	283,104
Increase (decrease) in income taxes payable	128,283	(196,042)
Increase (decrease) in land development service costs	(442,776)	2,076,199
Increase in deferred gain	261,276	-
	1,618,488	(2,863,363)
Financing activities		
Proceeds from (repayments of) bank loans, net	(885,447)	2,859,526
Proceeds from (repayments of) mortgages, net	(183,178)	1,204,108
Proceeds on issuance of share capital	63,113	-
Repurchase of shares	(108,990)	(19,514)
	(1,114,502)	4,044,120
Investing activities		
Proceeds on disposal of investments	5,313	-
Acquisition of properties	(122,058)	(1,881,964)
Proceeds on disposal of properties	-	585,713
	(116,745)	(1,296,251)
Distributions to shareholders		
Dividends paid	(156,591)	(159,717)
Cash inflow (outflow)	230,650	(275,211)
Cash and term deposits, beginning of year	973,523	1,248,734
Cash and term deposits, end of year	$ 1,204,173	$ 973,523

1. SIGNIFICANT ACCOUNTING POLICIES

(a) General

The company follows the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, together with the company's proportionate share of the assets, liabilities, revenues and expenses of joint ventures and a partnership.

(c) Land held for development and sale

(i) Land held for development and sale is valued at the lower of cost and net realizable value.

(ii) The company capitalizes all direct costs relating to land held for development. Indirect costs such as financing and property taxes considered applicable are expensed as incurred.

(iii) Costs capitalized to condominiums held for sale include all direct costs relating to the project and all indirect costs such as financing, property taxes and general and administrative costs, as incurred.

(iv) The total estimated servicing and development costs for land development are recorded as a liability at the time development begins on a project. The total estimated servicing, development and construction costs for condominium construction are recorded as a liability at the time of substantial completion of the project or when units have been recognized as sold. The unexpended portion of these costs are shown as "land development service costs". Whenever the estimate is determined to be materially different from the actual costs incurred or expected to be incurred, an adjustment is made to the provision with a corresponding adjustment to the cost of sales and lot inventory.

(d) Investments

The company records investments using the cost method of accounting whereby the investment is initially recorded at cost and earnings from such investments are recognized only to the extent received or receivable.

Where there has been a permanent decline in value, the investment will be stated at estimated net realizable value.

(e) Depreciation

Depreciation of rental buildings and fixtures is determined on the sinking fund method over the buildings' estimated remaining useful lives ranging from 33 to 40 years. The sinking fund method provides a depreciation charge consisting of a fixed annual sum together with interest thereon compounded at a rate of 5% per annum, which is sufficient to fully depreciate the buildings over their anticipated useful lives.

Depreciation of office furniture and fixtures and equipment is determined on the declining balance method at rates of 20 to 30% per annum.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Deferred gain

The deferred gain resulted on the disposal of land by the company to a joint venture in which it holds an interest. The portion of the gain allocable to the other non-related venturers has been recognized in income in the current year. The portion of the gain allocable to the company's interest in the joint venture, being the deferred gain, will be recognized in income as the joint venture disposes of the lots to independent third parties.

(g) Revenue recognition

Lot sales are recorded on closing or when a minimum of 15% of the sales price has been received and the sale is unconditional.

Condominium sales are recorded when:

(i) the sale is unconditional and full sale proceeds have been received (either in the form of cash or an irrevocable assignment of mortgage proceeds in favour of the company); and

(ii) a minimum of 95% of construction is completed on the condominium unit.

(h) Income taxes

On August 1, 1988, the company acquired certain property from its shareholders using the provision of subsection 85(1) of the Income Tax Act. As a result, certain income producing rental properties having a net book value of $1,053,859 (1995 - $1,068,106) for accounting purposes have a nil cost for income tax purposes.

The company's net investment in the proportionately consolidated partnership exceeds its cost for income tax purposes by $284,188 (1995 - $294,233).

No provision has been made in these financial statements for the additional income taxes which would be generated on the future sale of these properties.

2. LAND HELD FOR DEVELOPMENT AND SALE

	1996	1995
Land held for sale		
Land and development costs	$ 2,162,209	$ 2,994,922
Land held for development		
Land	2,845,161	531,653
Development costs	1,724,112	47,382
	4,569,273	579,035
Condominiums under development and held for sale		
Land and development costs	1,517,353	3,201,557
Capitalized costs (including interest of $3,679; 1995 - $228,617)	89,193	407,606
	1,606,546	3,609,163
	$ 8,338,028	$ 7,183,120

3. INVESTMENTS

Investments are comprised of marketable securities with recorded amounts of $95,111 (1995 - $100,424; restated - note 12) and market values of $121,720 (1995 - $60,480).

4. PROPERTIES

	Cost	Accumulated Depreciation	Net Book Value 1996	Net Book Value 1995 (restated - note 11)
Rental properties				
Land	$ 1,963,012	$ -	$ 1,963,012	$ 1,963,012
Buildings and fixtures	12,823,270	856,298	11,966,972	12,041,194
	14,786,282	856,298	13,929,984	14,004,206
Office furniture and fixtures and equipment	83,231	29,961	53,270	27,434
	$ 14,869,513	$ 886,259	$ 13,983,254	$ 14,031,640

5. BANK LOANS

Bank loans consists of:

(i) demand revolving operating facilities to a maximum of $1,500,000. The loans bear interest at a Canadian chartered bank's prime lending rate plus 0.5% to 1.0% per annum and are secured by specific assets owned by the company and corporate demand collateral debentures in the amount of $3,650,000 secured by a first fixed charge against specific assets of the company as well as a second floating charge over specific assets of the company. As at July 31, 1996, the balances owing are $1,081,651 (1995 - $nil).

(ii) demand capital financing loan to a maximum of $819,319 available for development of land. The loan bears interest at a Canadian chartered bank's prime lending rate plus 1.0% per annum and is secured by a first fixed charge against land under development, assignment of lot purchase agreements for each phase, an assignment of deposit of $230,000 and a demand debenture in the amount of $3,300,000 collateralized by specific land developed or being held for development. Principal repayments are made from lot sale proceeds upon title transfer. As at July 31, 1996, the balance owing is $161,715 (1995 - $979,369); and

(iii) demand capital financing loan to a maximum of $3,000,000 available for development of condominiums. The loan bears interest at a Canadian chartered bank's prime lending rate plus 2.0% per annum and is secured by a first fixed charge against condominium units under development, a floating charge over all other assets of the company and a corporate demand collateral debenture in the amount of $4,165,000 secured by specific assets of the company. Principal repayments are made from condominium sales proceeds upon title transfer. As at July 31, 1996, the balance owing is $774,284 (1995 - $1,923,728).

6. MORTGAGES

Mortgages bear interest at a weighted average interest rate of 10.87% per annum (1995 - 11.25%), are repayable in blended monthly instalments aggregating $106,141 (1995 - $105,911), are secured by rental properties and are due October 1, 1996 through December 1, 2011. Anticipated repayments on the mortgages over the next five years, assuming that they are renewed at existing rates, are as follows:

1997	$ 213,107
1998	236,939
1999	263,499
2000	293,108
2001	326,118
Thereafter	8,561,889
	$ 9,894,660

7. SHARE CAPITAL

(a) Authorized
Unlimited number of common voting shares
Unlimited number of non-voting, cumulative, preferred shares

(b) Issued

	1996		1995	
Common Shares	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	5,315,336	$ 5,927,593	5,335,336	$ 5,950,236
Acquired and cancelled pursuant to normal course issuer bid (note 7[c])	(100,300)	(113,834)	(20,000)	(22,643)
Total issued	5,215,036	5,813,759	5,315,336	5,927,593
Obligation to issue shares (note 7[d])	43,526	63,113	-	-
	5,258,562	$ 5,876,872	5,315,336	$ 5,927,593

(c) During the year, the company commenced a normal course issuer bid under which it could purchase up to 100,000 (1995 - 100,000) of its common shares until October 31, 1996 (1995 - October 31, 1995) at the market price of the shares at the time of acquisition. In total, the company acquired and cancelled 100,300 (1995 - 20,000) common shares at an average price of $1.09 (1995 - $0.98) per share during the year. The excess of stated value over cost of reacquisition of $4,844 (1995 - $3,129) was credited to contributed surplus.

(d) During the year, the company acquired land for future development in exchange for 43,526 common shares valued at $63,113 being the market value of the land acquired. As at July 31, 1996, these shares have not yet been issued.

7. SHARE CAPITAL (continued)

(e) As at July 31, 1996, 280,000 options are outstanding entitling the holder to purchase one common share per option for $1.05 per share until July 18, 1999.

During the year, 20,000 options exercisable at $1.10 per share expired unexercised.

(f) As at July 31, 1996, 216,000 (1995 - 462,712) common shares having a stated value of $270,000 (1995 - $613,332) remain in escrow to be released as follows:

Number	Date
72,000	July 30, 1996
72,000	July 30, 1997
72,000	July 30, 1998

The 72,000 shares scheduled to be released from escrow on July 30, 1996 were released from escrow subsequent to year end.

8. INCOME TAXES

Income taxes differ from that which would be expected when applying the combined federal and provincial rates of 44% (1995 - 45%) to income before income taxes as follows:

	1996	1995
Expected income tax expense	$ 598,442	$ 461,261
Increase (decrease) in income taxes resulting from:		
Depreciation on non-tax based assets	13,970	13,958
Rate reduction applicable to taxable capital gains	(115)	(20,339)
Gain on disposal of non-tax based assets	-	86,293
Other	497	(16,833)
Actual income tax expense	$ 612,794	$ 524,340

9. EARNINGS PER SHARE

Earnings per share has been calculated based on the weighted average number of common shares outstanding during the year of 5,263,863 (1995 - 5,331,610). The exercise of stock options would not be materially dilutive.

10. INVESTMENT IN JOINT VENTURES AND PARTNERSHIPS

The company's share of assets, liabilities, revenues and expenses of joint ventures and the partnership which have been proportionately consolidated in these financial statements is as follows:

10. INVESTMENT IN JOINT VENTURES (continued)

	1996	1995
Assets		
Cash and term deposits	$ 64,113	$ 21,993
Accounts receivable	4,137	287
Land held for development and sale	3,744,932	50,658
Properties	370,799	376,528
Liabilities		
Accounts payable and accrued liabilities	(87,143)	(4,173)
Land development service costs	(1,645,000)	-
Mortgages	(45,291)	(48,469)
Net investment	$ 2,406,547	$ 396,824
Revenues	93,211	88,605
Expenses	(65,246)	(44,719)
Income before income taxes	$ 27,965	$ 43,886
Cash flow used in operating activities	$ (1,936,460)	$ (1,079)
Cash flow used in financing activities	$ (3,178)	$ (8,098)

The company is contingently liable for obligations of the non-related venturers in the joint ventures only to the extent of the company's interest in the joint ventures. The company is joint and severally liable for obligations of its partners in the partnership; however, the assets of the partnership are available to satisfy these obligations.

11. CHANGE IN ACCOUNTING POLICY

Effective August 1, 1995, the company retroactively changed its method of accounting for its partnership interest from the equity method to the proportionate consolidation method. The effect of this change on the July 31, 1995 consolidated financial statements is to increase cash and term deposits by $21,993, accounts receivable by $287, properties by $376,528, accounts payable and accrued liabilities by $4,173 and mortgages by $48,469 and to decrease investments by $346,166. Revenues increased by $44,719 and expenses increased by $44,719 for a $nil effect on net income and earnings per share.

The aggregate effect of this change on the July 31, 1996 consolidated financial statements is to increase cash and term deposits by $22,762, accounts receivable by $235, properties by $370,799, accounts payable and accrued liabilities by $5,797 and mortgages by $45,291 and to decrease investments by $342,708. Revenues increased by $55,815 and expenses increased by $55,815 for a $nil effect on net income and earnings per share.

12. SEGMENTED INFORMATION

The company conducts its operations through two industry segments: rental of real estate properties and development and sale of real estate properties.

Earnings of industry segments exclude interest and other income and unallocated corporate expenses but include gains from disposition of segment assets. There are no intersegment sales.

Identifiable assets are those used in the operations of the segments. Corporate assets include cash and term deposits, corporate accounts receivable, prepaid expenses, corporate investments and corporate office furniture and fixtures and equipment.

12. SEGMENTED INFORMATION (continued)

1996

	Rental of real estate properties	Development and sale of real estate properties	Corporate	Total
Sales	$ 2,680,759	$ 5,482,462	$ -	$ 8,163,221
Gain on disposal of land held for development	-	122,943	-	122,943
Interest and other	-	-	272,660	272,660
Total revenues	2,680,759	5,605,405	272,660	8,558,824
Cost of sales	-	4,116,376	-	4,116,376
General and administrative and rental properties operating	896,597	294,619	641,587	1,832,803
Interest on mortgages	1,079,105	-	-	1,079,105
Depreciation	162,324	-	8,120	170,444
Total expenses	2,138,026	4,410,995	649,707	7,198,728
Income before income taxes	542,733	1,194,410	(377,047)	1,360,096
Income taxes	-	-	(612,794)	(612,794)
Net income	$ 542,733	$ 1,194,410	$ (989,841)	$ 747,302
Identifiable assets	$ 13,952,664	$ 9,299,682	$ 1,829,758	$ 25,082,104
Acquisition of properties	$ 88,101	$ -	$ 33,957	$ 122,058

1995
(restated - note 11)

	Rental of real estate properties	Development and sale of real estate properties	Corporate	Total
Sales	$ 2,472,001	$ 3,634,490	$ -	$ 6,106,491
Gain on disposal of rental properties	160,123	-	-	160,123
Interest and other	-	-	142,844	142,844
Total revenues	2,632,124	3,634,490	142,844	6,409,458
Cost of sales	-	2,672,560	-	2,672,560
General and administrative and rental properties operating	785,347	311,469	480,472	1,577,288
Interest on mortgages	957,789	-	28,720	986,509
Depreciation	143,309	-	4,765	148,074
Total expenses	1,886,445	2,984,029	513,957	5,384,431
Income before income taxes	745,679	650,461	(371,113)	1,025,027
Income taxes	-	-	(524,340)	(524,340)
Net income	$ 745,679	$ 650,461	$ (895,453)	$ 500,687
Identifiable assets	$ 14,009,974	$ 9,849,682	$ 1,633,125	$ 25,492,781
Acquisition of properties	$ 1,874,490	$ -	$ 7,474	$ 1,881,964

Corporate Information

Corporate Profile

Urbco Inc. is engaged in the acquisition, development, brokerage, management of real estate properties and real estate related opportunities.

Directors

C. Donald Wilson	Director	President and Chief Executive Officer, Urbco Inc.
Roy G. Wilson	Director	Chairman of the Board, Urbco Inc.
Kathleen E. McCaughey	Director	Secretary, Urbco Inc.
Arthur C. Cloutier	Director	President, Artco Developments
Robert V. Etcheverry *	Director	President, Plains Canada Ltd.
William J. Miller	Director	President, Wagonmaster Distributors Inc.
Douglas H. Mitchell, Q.C.	Director	Partner, Howard Mackie, Barristers and Solicitors
Eric Proppe	Director	President, Proppe Architect Ltd.
Fred P. Studer *	Director	Past-President, Studer Foods (Alberta) Ltd.

* Member, Audit Committee

Officers

C. Donald Wilson	President and Chief Executive Officer
Roy G. Wilson	Chairman of the Board
Gregory N. Herndier	Senior Vice-President
Barry J. Poffenroth	Senior Vice-President
Craig S. Johnson	Vice-President
Kathleen E. McCaughey	Secretary

Corporate Office

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Calgary, Alberta

Registrar & Transfer Agent

Montreal Trust
Calgary, Alberta

Auditor

Collins Barrow, Chartered Accountants
Calgary, Alberta

Stock Exchange Listing
The Alberta Stock Exchange

Trading Symbol
UBC

Major Projects and Properties

THE GARDENS
in Yellowknife

DIAMOND PARK
Condominium Townhomes

Diamond Ridge
Condominium Townhomes

SunRidge Place

PINNACLE RIDGE

Canyon Creek Estates

SheepRiver RIDGE